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KENT ECONOMIC AND DEVELOPMENT INSTITUTE

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1.0 OVERVIEW AND ASSUMPTIONS

1.0 OVERVIEW

The economic outlook for the early part of the 80's remains unchanged. The election results do not change the assumptions made here. The forecast of this Institute is as follows:

1981. The economy will grow at a slow rate in the 1.8 per cent range. The first half of the year will be nearly flat. The second half will show increased economic activity. The inflation rate will be in the 12.6 per cent range. Interest rates will be high and the unemployment rate will decline a bit.

1982. The forecast here shows more improvement with an overall growth rate of 3 per cent. Business capital outlays, housing and car sales will be substantially higher than in the previous year. Interest rates will decline more than they had in the prior year. Inflation will be in the 10 per cent range and unemployment will again decline slightly.

1983. This year will show another gain in the rate of growth; 3.5 per cent is foreseen here. Interest rates will approach a more normal level and unemployment will be approximately 6 per cent. The inflation rate will remain at the level of 1982--around 10 per cent.

1984. Some slowdown in economic activity is foreseen, but no recession is anticipated. The inflation rate will remain in the double digit range. Unemployment will not change significantly. Some slight increases in the interest rates are expected.

Looking at 1981 in more detail shows a weak first quarter. Construction

activity will slow considerably and car sales will be at a low level. Auto sales will not recuperate before the second half of the year.

The forecast shows that most industries will perform better in 1981 than in 1980. This is especially true for the following: machinery (electrical and nonelectrical), food, chemicals, paper, textiles, rubber and plastics, steel, aerospace, ordnance and accessories, machine tools, railroads, mining, and utilities. Housing activity will be slightly higher when compared with the current year. Unemployment will decline but not a great deal.

The inflation rate will remain at a high level for the first half of the year. Although still double digit, it will edge downward later in that year.

Much will depend on the policy of the Federal Reserve. If the high interest rates continue or go up to 19-20 per cent for a month or so, then a real slump, similar to what happened in the second quarter of this year will take place. It is assumed here that the Federal Reserve, in the first quarter 1981, will begin to take steps to push the interest rates down to more acceptable levels. A slump is not anticipated.

The forecast here is along the same lines as that of Louis Rukeyser for 1981; recovery at a slow rate and inflation still at a high rate. Although KEDI does see that inflation rate being a bit less high in 1981 than in 1980, still, it would be pretty hard to work up to a New Year's Eve toast

such as "Here's to the great news that prices will only go up in the 12 per cent range instead of over 13 per cent." It is unfortunate but factual to mention that government action does not lead to massive changes in the rate of inflation as most of the forces contributing to price gains are within the structure of the economy of this country, and, for the year 1981, in the existing Federal budget.

The anticipated economic growth of about 1.8 per cent at KEDI does exceed the average of the economists that were surveyed by Robert J. Eggert forecasting production as increasing barely over 1 per cent. We do agree with their view of the quarterly pattern as being pretty level in the first half of 1981 and showing more upward movement in the latter two quarters.

This Institute does not agree with economists that see the economic picture as getting less attractive before it begins to improve. The Wall Street Journal, (Nov. 6, page 25), quotes a Data Resources economists as saying, "there just isn't much that can happen over the next year or so" that would bring relief from the high rates of inflation, unemployment and interest rates. KEDI does not agree with that overview either. It is a matter of emphasis. Granted there will not be great economic change, but there will be some improvement as was noted earlier.

The view has also been expressed that sees any attack on inflation as something that would have some debilitating results for the economy in general. The view of this Institute is that any measures will not be in the drastic draconian division nor will their results be devastating.

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1979	1980	1981	1985
Gross National Product	bil. const. 72 $	1431.7	1420.6	1447.6	1648.4
Index of Industrial Production	1967 =100	152.5	145.6	150.9	174.8
Capacity Utilization	%	85.7	78.7	81.7	87.2
Unemployment Rate	%	5.9	7.2	7.4	6.3
Private Housing Starts	mil. units	1.721	1.285	1.528	1.928
Car Sales	mil. units	10.8	8.6	9.4	12.3
Implicit GNP Price Deflator	1972 =100	165.5	181.0	199.5	269.5
Consumer Price Index	1967 =100	217.5	246.3	276.9	430.9
Producer Price Index	1967 =100	236.2	271.0	314.8	461.2
Federal Deficit	bil. $	-11.2	-45.5	-40.9	-21.4
Personal Income	bil. $	1924.2	2116.4	2371.8	3315.3
Prime Rate	%	12.76	15.26	15.24	11.02
Mortgage Rate	%	10.60	12.95	14.07	10.85
Currency plus Demand Deposits	bil. $	363.8	379.2	417.4	532.6
Commercial and Industrial Loans	bil. $	290.5	314.1	343.7	427.8

The following assumptions are part of this forecast. Compared with assumptions incorporated into the October, 1980, issue, the changes concern the Assumptions No. 1 and 2, and update of Assumptions No. 3,5, and 7.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $48, in 1982, to $56 per barrel. In 1983, to $62 per barrel, in 1984, to $70 per barrel and in 1985, to $75 per barrel.

2. It is expected, that the Iranian-Mid East crisis will continue throughout the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983. Compared with the October 1980 forecast, higher price increases of energy items and substantially higher U.S. defense orders have been considered.

3. Tight monetary policy will continue throughout 1981, and some relaxation will take place not earlier than in 1982 and 1983.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops. For this year, the forecast data for some crops, mainly corn, soybeans, cotton, and some other crops will be lower than those of the last year.

7. It is projected here that the rates of growth in 1981-84 in the major industrial countries will be as follows for real GNP:

	1981	1982	1983	1984
West Germany	2.0%	2.4%	3.0%	3.5%
Japan	1.5%	2.1%	3.0%	3.9%
Italy	1.5%	2.0%	2.7%	3.0%
Great Britain	1.4%	2.0%	2.4%	2.6%
France	2.0%	2.4%	2.7%	2.8%

8. No drastic changes in existing international relationships are forecast.

1.1 REAL GROWTH

(Table 1.10 on page 8)

The economic news this month is more mixed. First, the good news. Industrial production went up in October by an adjusted 1.6 per cent over September. That makes three consecutive months of gain. The October increase was the largest since April of 1978. (Still, the October index of 146 per cent of the 1967 base was 4.4 per cent lower than the year-earlier level.)

KEDI shares the view expressed by economists at Wharton Econometric Forecasting

Associates that sales of nondurable goods will be nearly flat in the next few months but some measurable growth in durable goods sales will be seen. That would lead to gains in production and some overall economic growth.

The gain in consumer borrowing in September which exceeded the money consumers repaid also indicates that confidence in the economy is again growing. Credit card use is recovering from the punishment taken due to Federal Reserve action of March.

The Commerce Department has come out with their estimate of construction spending in 1981. That is also good news. They figure that such spending will increase by 18 per cent over the current year. Even though that is not adjusted for inflation, there is real gain there. KEDI is not so optimistic as the Commerce Department. The 1981 capital outlays are projected to be 16 per cent higher than this year. That still leaves adequate room for real growth.

Auto sales have been and still are in the bad news category. October auto sales were 5.1 per cent below the year-earlier total. Domestic makers experienced a sales decline of 7.9 per cent to about 661,000 units and imported autos sold amounted to roughly 183,000 which was 6.7 per cent above the total for the previous October. In terms of shares of the market, however, the imports accounted for 21.7 per cent of the market this October whereas it had been higher this summer. Still, in October of 1979, that share was less: 19.3 per cent.

KENT ECONOMIC AND
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MONTH: November 1980

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Gross National Product, 1972 $	bil. $	1431.7	1444.7	1408.6	1411.7	1417.4	1420.6
Index of Industrial Production	1967=100	152.5	152.2	144.6	141.5	144.2	145.6
Unemployment Rate	%	5.9	6.1	7.5	7.6	7.7	7.2
Capacity Utilization Rate	%	85.7	85.1	77.0	75.4	77.1	78.7
Private Housing Starts	mil. units	1.721	1.330	1.048	1.402	1.361	1.285
Car Sales	mil. units	10.8	9.5	7.7	8.7	8.6	8.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1420.6	1424.1	1439.5	1454.8	1472.1	1447.6
Index of Industrial Production	1967=100	145.6	147.1	149.3	152.0	155.1	150.9
Unemployment Rate	%	7.2	7.7	7.5	7.2	7.0	7.4
Capacity Utilization Rate	%	78.7	78.2	80.5	83.7	84.3	81.7
Private Housing Starts	mil. units	1.285	1.322	1.505	1.661	1.625	1.528
Car Sales	mil. units	8.6	8.6	8.9	9.7	10.2	9.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1447.6	1485.6	1507.2	1536.4	1554.1	1520.8
Index of Industrial Production	1967=100	150.9	158.9	161.8	164.0	166.7	162.9
Unemployment Rate	%	7.4	6.8	6.6	6.5	6.2	6.5
Capacity Utilization Rate	%	81.7	85.1	86.3	86.3	86.4	86.0
Private Housing Starts	mil. units	1.528	1.441	1.674	1.786	1.765	1.666
Car Sales	mil. units	9.4	10.1	10.6	10.8	11.0	10.6

* Historical Data

Indications are that in November retail sales will be flat and auto production will decline. Also, construction activity will slow.

Again, much will depend on the interest rates policy of the Federal Reserve. If it continues with high interest rates, a slump is likely in the first months of 1981. It is expected here that some reduction in interest rates will forestall such a slump.

2.0 PRICES

(Table 1.20 on page 12)

Compared with the last forecast, the price indicators have been changed a bit. Year-to-year percentage changes in the CPI follow:

1980	+13.4
1981	+12.6
1982	+11.2
1983	+10.5
1984	+10.0

(In the last issue there was an error. It was stated that the projection for the Consumer Price Index change in 1981 from 1980 was 13.6 per cent. That should have read 12.6 per cent in that issue. As can be seen the revised forecast is just a bit lower at 12.6.)

The forecast concerning food prices in 1981 is maintained. The rise there there will be 10-11 per cent above the 1980 level.

The Agriculture Department expects food prices to go up at a higher rate. Led by meat and poultry, they anticipate the 1981 gain in retail food prices will be 12.2 per cent. As economists there see it, meat and poultry will go up by 15 to 20 per cent. As people shift more towards eggs, incredible, edible egg prices will also gain. One can speculate as to whether or not the expected rise of 22 per cent in sugar prices will lead people to cut down on sweets.

Contributing to price gains is the fact that grain production in both this year and last year declined. Reserve stocks have been declining. An Agriculture Department economist notes that foreign nations will likely be depending on the U.S.A. to provide for 15 per cent of their agricultural needs by 1985 whereas that percentage was only 2 about 30 years ago. Meeting that demand will, naturally, add to the costs. For 1982, it is expected here that food prices will go up at a slower rate of 7-8 per cent. (That isn't much comfort to those with little flexibility in their income and growing children besides.)

In terms of recently released data confirming price hikes, there was a rise of 1.9 per cent in the prices that farmers received for their products in November as compared to October. The September to October rise had been at a lower rate of 0.4. Food prices rose an adjusted 0.5 per cent in the same period.

Wheat prices have gone up about 25 per cent since early summer. This year's record production did not keep up with demand and wheat stocks went down by

200 million bushels to the 900 million range. The weather that led to the poor grain and soybean crops has been of benefit to some--the minority of farmers whose crops were not affected. Since the first part of June the price of corn has gone up over 35 per cent and soybeans have gained over 45 per cent.

The oversupply of potatoes last spring has gone. Prices have risen substantially since late spring. The cost of producing a pound of potatoes has risen quite a bit in recent years due to fuel and fertilizer price hikes but future prices for spring delivery have jumped and that encourages more potato planting. The wholesale price for Maine potatoes was under 3 cents in May and reached above 5 cents in early November. The April-delivery futures has gone up to 15 cents.

Continued sharp increases in industrial prices are anticipated by KEDI. Producer prices for finished goods went up by 0.8 per cent in October from the prior month, seasonally adjusted. Before adjustment, such prices went up by 1.3 per cent to 252.2 per cent of the 1967 average. On a year-to-year basis, the price gain was 12.5 per cent.

According to a survey of buying managers, half reported paying more for materials in October whereas in September, 39 per cent reported paying more. Only 2 per cent reported paying less.

During 1981, the highest price gains are likely to be in energy related items. That has been true in recent years and will continue to be true. For

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1979 *	1980				1980
			1*	2*	3	4	
Consumer Price Index, NSA	1967=100	217.5	236.6	245.0	249.6	254.1	246.3
Producer Price Index, NSA	1967=100	236.2	258.7	263.7	272.3	284.8	269.9
Implicit GNP Price Deflator	1972=100	165.5	174.5	179.0	183.2	187.1	181.0
Gross National Product	bil. $	2369.5	2520.8	2521.3	2586.5	2652.0	2570.2
Personal Consumption Expenditures	bil. $	1510.0	1629.5	1626.6	1683.3	1710.3	1662.4
Gross Private Dom. Investment	bil. $	387.3	387.7	368.5	348.4	366.7	367.8

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.3	263.4	273.5	281.9	288.8	276.9
Producer Price Index, NSA	1967=100	269.9	299.4	311.5	318.7	329.6	314.8
Implicit GNP Price Deflator	1972=100	181.8	191.7	196.0	202.4	207.8	199.5
Gross National Product	bil. $	2570.2	2730.0	2821.4	2944.5	3059.0	2888.7
Personal Consumption Expenditures	bil. $	1662.4	1763.5	1826.2	1919.7	2029.7	1884.8
Gross Private Dom. Investment	bil. $	367.8	376.5	393.7	408.1	423.3	382.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	276.9	297.1	302.6	312.0	321.3	308.3
Producer Price Index, NSA	1967=100	314.8	339.6	349.2	358.6	366.3	353.4
Implicit GNP Price Deflator	1972=100	199.5	210.2	214.1	217.4	223.4	216.3
Gross National Product	bil. $	2888.7	3122.7	3226.9	3340.1	3471.9	3290.4
Personal Consumption Expenditures	bil. $	1884.8	2048.8	2121.9	2202.5	2301.9	2168.8
Gross Private Dom. Investment	bil. $	382.9	434.9	452.9	468.1	482.3	459.6

* Historical Data

example, by the end of next year, it is likely that we all will be paying about $1.80 for a gallon of gas. By the end of 1984, a price in the $3.00 is more likely. (It is very easy to find incentives to walk, ride the bus or help start a bus company, combine errands, or stay home and eat and pursue other activities by candlelight.)

Mr. Eggert's survey of economic forecasters revealed that, on the average, the change expected in the Consumer Price Index in 1981 over this year was 10.2 per cent. KEDI has been maintaining for many months that 1981 will bring us inflation in the CPI in the 12 per cent range or more. As was mentioned, that estimate here is now at 12.6 per cent.

1.3 EMPLOYMENT AND LABOR

(Table 1.30 on page 14)

The Labor Department reported that unemployment in October was at 7.6 per cent compared to the September rate of 7.5. As such reports are based on preliminary data samples and because the change is just one-tenth of a per cent, this is not seen here as a change but as a holding pattern. Indications are that for this month the figure will be about the same, possibly a bit lower. The average workweek for nonfarm workers was at 35.1 hours as compared to the prior month estimate of 35.2.

The forecast for the unemployment rate in 1981 has been increased slightly here due mainly to the recent developments in interest rates. (The jumps in interest rates that have been occurring of late were not anticipated by

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1*	2 *	3	4	
Population	mil.	220.4	221.9	222.6	223.4	224.1	223.0
Civilian Labor Force	mil.	103.3	104.2	104.7	105.2	106.0	105.0
Employed	mil.	97.2	97.8	96.9	97.2	97.8	97.4
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	93.9	94.5	93.5	93.8	94.5	94.0
Unemployment Rate	%	5.8	6.13	7.46	7.63	7.72	7.24

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.0	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.4	98.4	99.0	100.0	100.9	99.6
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.0	95.1	95.7	96.6	97.6	96.3
Unemployment Rate	%	7.24	7.70	7.52	7.19	6.98	7.35

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.6	101.7	102.7	103.5	104.7	103.2
- Agriculture	mil.	3.3	3.3	3.4	3.4	3.3	3.4
- Non Agriculture	mil.	96.3	98.4	99.3	100.1	101.4	99.8
Unemployment Rate	%	7.35	6.76	6.59	6.48	6.21	6.51

* Historical Data

KEDI.) These affect the forecast as there will be some negative impact on overall economic activity.

Still, the outlook here is relatively optimistic when compared to some other forecasters.

PROJECTED UNEMPLOYMENT RATES

Year and Quarter	KEDI	Wharton	Michigan	Chase	Data Resources
1980 4th	7.6	8.1	8.9	8.3	7.8
1981 1st	7.7	8.0	9.2	8.4	7.7
2nd	7.5	8.0	9.2	8.4	7.6
3rd	7.2	7.9	9.0	8.3	7.5
4th	7.0	7.8	8.8	8.3	7.3

1.4 HOUSING

(Table 1.40 on page 17)

Housing starts went up a bit in October to an adjusted rate of 1.569 million. This is about the level they were at the first of this year. Multifamily starts went up in October while single-family construction declined. Total housing starts for this October were 8.2 per cent lower than they were one year ago. The National Association of Home Builders has changed its forecast for total housing starts this year to 1.22 million (as compared to 1.75 million in 1979). The KEDI estimate is now at 1.28 which is slightly less than last month's projection here that came to 1.31 million. Permits

issued were down by 9.8 per cent on an adjusted basis, from the October of 1979.

In mid-November, the Dodge Report showed that newly contracted construction work in September came to a total value of $13.1 billion which was one per cent lower than the total for the year-earlier figure. There had been gains here for the prior three months. September contracts show a leveling.

Again, the interest rate leaps during the last month are the major reason why the forecast here has been slightly revised in a downward direction when compared with the previous issue. For instance, last month the estimate here for fourth quarter single family housing starts was at an adjusted .969 million. That has been changed to .926. For 1981, the projection here for such starts was at 1.013 million and that has been changed to a slightly lower figure of .992 million single-family starts. The reader is referred to Table 1.40 on page 17.

It is assumed here that interest rates will return to a more "normal" level in March and April of 1981. Still the high rates that exist now will put a crimp in the housing industry. For the time being, the forecast here for housing activity in 1981 has been lowered by approximately 2 per cent. If the present abnormally high interest rates persist and no corrective attempts are made at the Federal Reserve level, there may be a much sharper decline in this area.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979	1980				1980
			1*	2*	3	4	
Single-Family Housing Starts	mil.	1.169	.801	.669	.971	.926	.842
Multifamily Housing Starts	mil.	.551	.529	.379	.428	.435	.443
Mobile Home Shipments	mil.	.283	.257	.180	.192	.174	.201
Housing Permits Issued	mil.	1.535	.965	.885	1.240	1.006	1.024
Construction Costs-Commerc.	1972=100	180.2	193.5	197.0	200.4	203.1	198.5
Construction Costs-Resident.	1972=100	178.8	192.1	196.4	201.2	204.8	198.6

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.842	.863	.976	1.081	1.049	.992
Multifamily Housing Starts	mil.	.443	.459	.529	.580	.576	.536
Mobile Homes Shipments	mil.	.201	.189	.236	.267	.281	.243
Housing Permits Issued	mil.	1.024	.954	1.136	1.428	1.410	1.232
Construction Costs-Commerc.	1972=100	198.5	209.9	218.7	223.1	235.2	221.7
Construction Costs-Resident.	1972=100	198.6	211.6	218.4	222.5	233.8	221.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.992	.879	1.035	1.126	1.094	1.034
Multifamily Housing Starts	mil.	.536	.562	.639	.660	.671	.633
Mobile Homes Shipments	mil.	.243	.270	.315	.326	.322	.308
Housing Permits Issued	mil.	1.232	1.361	1.743	1.826	1.741	1.668
Construction Costs-Commerc.	1972=100	221.7	240.3	254.6	263.7	272.6	257.8
Construction Costs-Resident.	1972=100	221.6	240.5	252.4	261.8	270.8	256.4

* Historical Data

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1.5 BUDGETS

(Table 1.50 on page 19)

In this issue, there are some revisions in the forecast for the Federal and state budgets for 1981 and 1982. The reader is referred to Table 1.50 on page 19. For 1981, the projection for the federal deficit has been changed to $45.5 from the earlier estimate of $43.6. The 1982 deficit has been increased by $3 billion to $40.9 billion.

An assumption that has been maintained here has proven to be correct; namely, no tax cut in 1980. The projection assumes that there will be a tax cut of about $40 billion in 1981, a $30 billion tax reduction in 1982, and $20 billion in 1983. That is the same amount as has been incorporated into the assumptions since August.

State and local surpluses have been revised upwards. This is due to the higher than anticipated gains in corporate and income taxes.

1.6 INCOME

(Table 1.60 on page 20)

Corporate profits recovered in the third quarter. The Commerce Department reported that after-tax corporate profits went up by 7.9 per cent in the third quarter from the prior quarter. The forecast by KEDI has been on target here. The amount projected here for such profits was $137.1 million and the recently released data shows that the amount was $137.2.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2*	3	4	
Federal Govt.:							
Income Taxes	bil. $	225.0	239.9	242.9	249.2	257.9	247.5
Corporate Profit Tax Accruals	bil. $	78.5	86.8	65.6	71.9	75.8	75.0
Surplus./Deficit	bil. $	-11.2	-22.9	-49.2	-58.4	-51.5	-45.5
State and Local Governments:							
Income Taxes	bil. $	40.7	39.7	39.2	41.5	43.3	40.9
Corporate Profit Tax Accruals	bil. $	14.4	15.6	12.0	13.3	13.0	13.5
Surplus./Deficit	bil. $	24.7	24.6	19.5	23.9	24.5	23.1

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	247.5	271.4	292.5	311.4	323.5	299.7
Corporate Profit Tax Accruals	bil. $	75.0	80.1	97.7	101.9	106.1	96.5
Surplus./Deficit	bil. $	-45.5	-42.6	-47.5	-42.1	-31.5	-40.9
State and Local Governments:							
Income Taxes	bil. $	40.9	44.6	46.4	47.8	49.7	47.1
Corporate Profit Tax Accruals	bil. $	13.5	14.9	15.5	18.1	19.7	17.1
Surplus./Deficit	bil. $	23.1	24.8	23.8	25.6	27.8	25.5

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	299.7	334.3	344.2	353.6	365.4	349.4
Corporate Profit Tax Accruals	bil. $	96.5	111.9	119.4	124.8	127.9	121.0
Surplus./Deficit	bil. $	-40.9	-30.7	-27.5	-20.6	-17.1	-24.0
State and Local Governments:							
Income Taxes	bil. $	47.1	51.5	53.7	55.9	57.8	54.7
Corporate Profit Tax Accruals	bil. $	17.1	22.5	24.9	26.4	29.0	25.7
Surplus./Deficit	bil. $	25.5	28.9	30.3	32.5	33.8	31.4

* Historical Data

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1979*	1980				1980
			1*	2 *	3	4	
Personal Income	bil. $	1924.2	2057.4	2080.5	2144.6	2183.7	2116.4
Personal Dispos. Income	bil. $	1624.1	1737.4	1755.9	1810.5	1837.4	1785.3
Compensation of Employees	bil. $	1459.5	1555.2	1564.2	1591.5	1657.3	1592.1
Corp. Profits After Tax	bil. $	144.6	158.0	127.1	137.2	144.6	141.7
Personal Saving	bil. $	73.2	64.4	86.3	84.9	91.2	81.8
Average Weekly Earnings	$	219.4	229.2	231.2	232.9	235.6	232.2

Indicator	Unit	1980	1981				1981
			1	2	3	4	
Personal Income	bil. $	2116.4	2250.0	2308.2	2426.9	2502.1	2371.8
Personal Dispos. Income	bil. $	1785.3	1887.8	1931.5	2029.4	2100.7	1987.4
Compensation of Employees	bil. $	1592.1	1708.5	1743.5	1845.7	1914.2	1803.0
Corp. Profits After Tax	bil. $	141.7	147.9	157.5	172.1	178.7	164.1
Personal Saving	bil. $	81.8	93.1	95.6	99.7	95.4	96.0
Average Weekly Earnings	$	232.2	239.8	243.1	247.2	252.3	245.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2371.8	2537.1	2615.8	2695.9	2789.0	2657.7
Personal Dispos. Income	bil. $	1987.4	2130.9	2206.8	2264.3	2341.7	2235.9
Compensation of Employees	bil. $	1803.0	1951.3	2011.6	2092.1	2180.5	2058.9
Corp. Profits After Tax	bil. $	164.1	184.3	189.2	197.2	203.4	193.5
Personal Saving	bil. $	96.0	96.3	95.2	90.4	93.1	93.8
Average Weekly Earnings	$	245.6	256.8	262.4	268.1	275.3	265.7

* Historical Data

In the third quarter, private workers' wages and salaries went up by 2.2 per cent, but keeping inflation in mind, purchasing power continues to be eroded. Personal income increased by 1.1 per cent in October and spending also went up by 1.0 per cent. The October savings rate was the same as in September. The forecast data for Personal Income and Components show constant growth throughout 1981 and 1982. However, adjusted for inflation and for population changes, the outlook here is rather bleak. Real per capita disposable income will keep declining in the next three years. In 1984, some improvement will take place.

This Institute's forecast for earnings, dividends and related items remains basically unchanged when compared with the previous forecast.

1.7 MONEY AND CREDIT

(Table 1.70 on page 23)

Developments about money and credit in November confirmed the assumption made here (Assumption No. 4) that the Federal Reserve Board should, finally, start to set limits on monetary growth by long-term commitments instead of just using short-term ones as has been true in the past.

In the opinion of this Institute, the Federal Reserve has failed this year. There is agreement here with the view expressed by Milton Friedman. When speaking of the fluctuations in M_{1-B} in the past two decades, he said;

> There is no three-month period in those two decades when

> the money supply fell as sharply as it did from February to May. There is no five-month period in those two decades when the money supply rose as rapidly as it did from May to October. (Newsweek, Dec. 1, 1980, page 78)

When comparing the targets, set up by the Federal Reserve in 1979 for monetary expansion this year, it can be seen that growth of the various components of the money supply did not deviate too much, on the average, during 1980. However, what has been damaging to the economy? THE WIDE FLUCTUATIONS have caused some havoc. These can be avoided only by long-term commitments. There are indications that the Feds will have to move in that direction. At least some of Reagan's advisors favor such goals either through action by the Federal Reserve or through legislation setting targets if necessary.

In terms of growth of monetary aggregates for 1981 and 1982, the forecast here remains about the same with slight increases made since the last issue. The following are percentage increases from each prior year in two money supply indicators.

	1980	1981	1982
M1A	+4.2	+9.6	+7.9
M2	+7.9	+9.7	+8.4

Unlike Mr. Friedman, "a renewed recession" is not seen as likely if the monetary growth is slowed. It's a matter of degree. It is not expected that such growth will be sharply curtailed, but that it will be harnessed

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1979	1980				1980
			1*	2*	3	4	
Currency + Demand Deposits, M1A	bil. $	363.8	374.8	368.9	380.1	393.1	379.2
Time Deposits, Adjusted, M2	bil. $	1471.4	1543.6	1565.8	1604.3	1626.3	1585.0
Consumer Instal. Credit	bil. $	311.1	307.6	301.4	304.7	309.4	309.4
Commerc. and Industr. Loans at Banks	bil. $	290.5	302.7	301.7	304.9	314.1	314.1
Negotiable Cert. of Deposits	bil. $	115.6	117.2	121.4	123.1	128.1	128.1
Mortgages at S & L Assns.	bil. $	475.8	479.3	479.1	482.7	487.1	487.1
Indicator	**Unit**	**1980**	**1981**				**1981**
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	379.2	400.1	413.4	423.5	432.7	417.4
Time Deposits, Adjusted, M2	bil. $	1585.0	1685.9	1730.7	1757.2	1789.7	1740.9
Consumer Instal. Credit	bil. $	309.4	317.9	324.6	328.9	336.5	336.5
Commerc. and Industr. Loans at Banks	bil. $	314.1	320.4	328.7	335.6	343.7	343.7
Negotiable Cert. of Deposits	bil. $	128.1	134.5	138.7	145.2	149.4	149.4
Mortgages at S & L Assns.	bil. $	487.1	490.3	499.1	510.5	517.4	517.4
Indicator	**Unit**	**1981**	**1982**				**1982**
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	417.4	436.8	447.5	456.5	467.9	452.2
Time Deposits, Adjusted, M2	bil. $	1740.9	1824.3	1865.7	1914.1	1950.7	1888.7
Consumer Instal. Credit	bil. $	336.5	340.6	353.1	364.2	375.7	375.7
Commerc. and Industr. Loans at Banks	bil. $	343.7	348.7	355.6	366.7	377.9	377.9
Negotiable Cert. of Deposits	bil. $	149.4	151.6	153.1	158.7	162.3	162.3
Mortgages at S & L Assns.	bil. $	517.4	525.7	537.4	548.3	565.2	565.2

* Historical Data

and put on less crooked path to reach the approximate same destination traveling a straighter and smoother route.

Consumer installment credit went up by an adjusted 6.7 per cent in September from the August level. For the third quarter, such credit expanded at an annual rate of 1 per cent. In the second quarter, there had been a drop of 11.5 per cent. (Remember the restrictive action in March.) As compared with the previous forecast, the data have been slightly increased.

1.8 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 25)

The projection here of interest rates in the fourth quarter of 1980 has been revised upwards. That is not surprising considering that KEDI and others were surprised by the skyrocketing rates of this month.

Unlike many forecasters, a drastic decline in the interest rates is not expected in December or January by this Institute. In 1981, interest rates will decline at a gradual pace. In the new forecast here, the three month average prime rate in the fourth quarter this year, will be in the 17.5 per cent range. (That assumes a 19-20 per cent rate during December.) At the end of 1981, it will move down a bit more to the 14 per cent range.

Calculations show, that a 20 per cent prime rate (and correspondingly high interest rates in other areas) continuing through January will lead some

TABLE 1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

Indicator	Unit	1979*	1980				1980
			1*	2 *	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.19	13.35	9.97	9.84	13.62	11.70
Prime Rate	%	12.76	16.39	15.74	11.48	17.42	15.26
Mortgage Rate, New Homes	%	10.60	15.23	12.27	11.14	13.16	12.95
Aaa Bonds Rate	%	9.63	12.14	11.05	11.95	12.43	11.89
Long Term Govt. Bonds Yield	%	9.33	11.78	10.71	10.31	11.04	10.96
Standard & Poor's 500 Average	1941-43 =100	102.83	110.30	108.40	122.88	117.23	114.70

Indicator	Unit	1980	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.70	13.23	12.80	11.75	11.20	12.25
Prime Rate	%	15.26	16.42	15.30	15.18	14.05	15.24
Mortgage Rate, New Homes	%	12.95	13.05	12.87	12.52	12.23	15.24
Aaa Bonds Rate	%	11.89	12.10	11.94	11.58	11.14	11.69
Long Term Govt. Bonds Yield	%	10.96	11.02	10.94	10.91	10.73	10.90
Standard & Poor's 500 Average	1941-43 =100	114.70	118.94	122.87	126.83	129.55	124.54

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	12.25	10.71	10.78	11.43	11.72	11.16
Prime Rate	%	15.24	13.24	13.75	14.23	15.07	14.07
Mortgage Rate, New Homes	%	12.67	12.01	11.87	11.40	11.06	11.58
Aaa Bonds Rate	%	11.69	11.04	11.14	11.53	11.87	11.39
Long Term Govt. Bonds Yield	%	10.90	10.68	10.25	10.07	10.14	10.29
Standard & Poor's 500 Average	1941-43 =100	124.34	135.92	139.84	133.54	129.82	134.78

* Historical Data

significant decline in economic activity. It is not anticipated that such events will take place. The views expressed by some bank economists that interest rates may still move up a bit but decline slightly at the end of the year is shared here.

The forecast concerning the stock market has remained essentially unchanged (calculations vary less than 1 per cent this month as compared to last month).

Overall, the interest rates that we all pay will remain at high levels in the near future. In the latter half of 1982 there will be some decline, but a memory such as a 6 per cent mortgage will remain just a memory.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Producer Price Indexes for the third quarter 1980 have been selected for comparison. Actual figures have been taken from the October 1980 issue of the Survey of Current Business, blue pages, (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data is from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond, Va., February, 1980, Library of Congress Catalogue Card No: 75-189493. The table on the next page shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

PRODUCER PRICE INDEXES
(Third quarter 1980, 1967=100)

Actual: Producer Price Index, All Items: 272.3
Finished Goods: 248.2

FORECASTER	Page in Business Forecasts 1980	Forecast	% of Accuracy
Producer Price Index, All Items:			
University of California	26	269.7	-1.0
KEDI	31	273.5	+ .4
Data Resources	33	267.6	-1.7
Finished Goods:			
Chemical Bank	21	240.6	-3.1
Cyrus J. Lawrence, Inc.	27	233.6	-5.9

The short list above includes all the forecasters that calculate producer prices and are included in the sources used here.